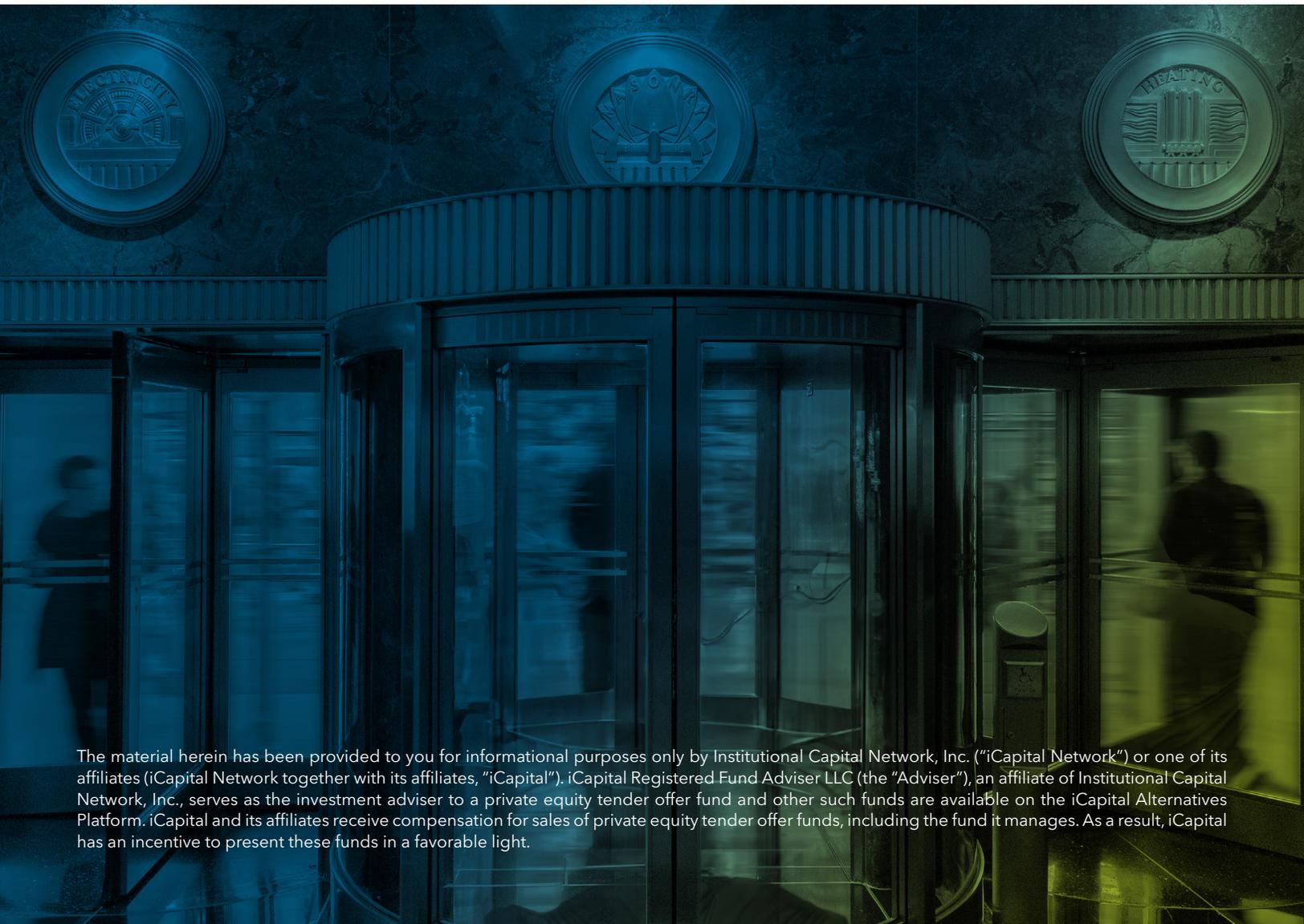




Private Equity Tender Offer Funds: Understanding Your Entry and Exit Price

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For most of us, a net asset value (NAV) is an accurate representation of a fund's per share value. But for tender offer funds, there is a degree of stale underlying pricing involved. Investors looking to redeem their shares may find that their NAV is based on underlying company valuations that were reported one or two quarters prior. These timing aspects come with the territory when making less liquid investments, but they should prompt investors to understand the flexibility that funds have when it comes to the timing inputs of NAV calculations and the implications when entering and exiting a tender offer fund.

Fund structures operating under the Investment Company Act of 1940 ('40 Act), in particular interval and tender offer funds (together referred to as "Registered Funds"), are seeing a rapid uptake by alternative asset managers. These funds are looking to tap into new pockets of capital, particularly the \$66 trillion in the U.S. wealth management channel.¹ Fund managers are approaching this opportunity with '40 Act funds, as they offer enhanced investor protections (i.e., SEC oversight) that individual investors have come to expect.

Private equity - initially slower to embrace registered fund structures - is now beginning to scale. One factor that's powering this growth is the entrance of almost every major fund-of-funds player in recent years. These firms can take advantage of secondaries and free (or low fee) syndicated co-investments to assemble and manage a registered fund. Despite the challenging backdrop for private equity, which has seen deal volumes decline by 20% year-over-year in 2023,² the category will represent close to 25% of assets in interval and tender offer funds in 2023, up from 12% in 2017 (Exhibit 1).

Since private equity tender offer funds are largely comprised of secondaries and syndicated co-investments, rather than direct investments, a fund's underlying investments can be diversified across different third-party general partners (GPs). While managers of tender offer

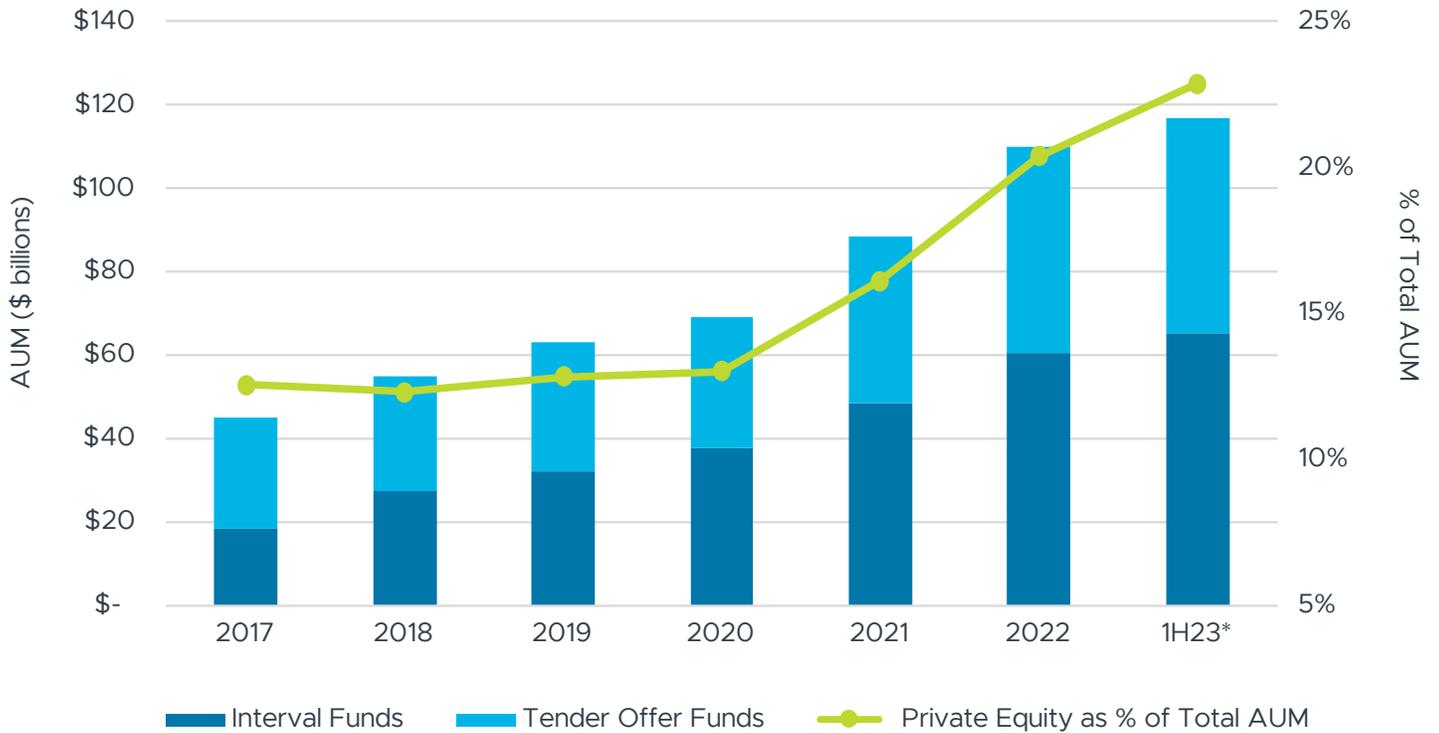
funds actively monitor their portfolios, they still rely on underlying valuation information from these GPs - a key reason why valuation timing issues can arise.

Understanding NAV Calculation Approaches

Individual investors looking at private equity funds should be aware and seek clarity on how NAV pricing is published. Even after advisors help investors understand the less liquid nature of private equity, they may not be fully aware of the different approaches that each tender offer fund may take when publishing its NAV. Within the private equity tender offer world, GPs are responsible for making and tracking underlying investments, which they typically report once a quarter. These reports are generally released 45 to 75 days after quarter-end. However, many tender offer fund managers (i.e., fund-of-funds) will publish quarter-end NAVs within 30 days regardless of whether the GPs have reported the underlying valuations.³ In other words, there's a timing mismatch - in instances where more recent underlying valuations are not available when a tender offer fund publishes its NAV, the underlying valuations from a prior quarter are being used.

With this backdrop, investors should be mindful that valuations on underlying portfolio investments may be stale. An investor looking to redeem shares - based on

Exhibit 1: Interval and Tender Offer Funds Assets Under Management (AUM)



Source: iCapital, SEC filings, as of 1H 2023. 1H 2023 data through each fund's semi-annual filing. For illustrative purposes only. Past performance not indicative of future results. Future results are not guaranteed.

Exhibit 2: NAV Calculation Approaches for Private Equity Tender Offer Funds

	Valuation Approach 1	Valuation Approach 2
Description	NAV is quickly published on a regular cadence, but may reflect outdated underlying valuations.	NAV requires a longer wait, but typically reflects more recent underlying valuations.
Rationale	If the most recent quarter-end underlying valuations from third-party GPs are not yet available, the tender offer fund may use underlying valuation data from a prior quarter.	Certain tender offer funds wait for the most recent quarter-end underlying valuations from third-party GPs in order to provide a more up-to-date NAV. ⁴
Timing For tender offer funds to publish quarter-end NAVs	Within 30 days of quarter-end.	Within 55-65 days of quarter-end.

Source: iCapital, as of Jan. 2024. For illustrative purposes only.

a December quarter-end NAV, for example – may not realize that the NAV is based on underlying company valuations that were reported at the end of September or even June. If public markets rise or decline in a given quarter, underlying investment valuations may not reflect these events even if the NAV calculation date states a given quarter-end date. In fact, a downside move might be more relevant for private equity investors as they explore new entry points.

Some tender offer funds take a different approach in that they wait for the more recent underlying valuations from third-party GPs before publishing their quarter-end NAVs. Tender offer funds that take this approach generally expect to publish their NAVs 55-65 days after the quarter, compared to 30 days. While this approach does require additional time, these funds typically publish a more up to date quarter-end NAV to their shareholders.

It is important to note that NAVs will reflect some degree of outdated pricing for the vast majority of private equity tender offer funds. Investors considering this asset class should take into account the valuation approach and timing as part of their investment decision.

Ensure You Know the “as of” Date

With a growing number of large, established managers entering the evergreen space, individual investors now have an ability to access private equity return and diversification potential through tender offer funds, which offer investors the ability to redeem their shares on a periodic basis. However, investors looking to take advantage of these liquidity events should understand how the quarter-end NAVs are being calculated and be aware that the underlying valuations might not reflect the most recent information. At a minimum, investors and advisors should ask specific questions so they understand a tender offer fund’s NAV methodology and the “as of” date of the underlying valuations.



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ENDNOTES

1. Cerulli Associates, The Cerulli Report. U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2023, as of Jan. 2024.
2. Pitchbook, iCapital Investment Strategy, as of Dec. 5, 2023. Note: Private Equity deal volume is based on deal value and annualized using year-to-date data through Sept. 30, 2023.
3. Funds publish NAVs within 30 days as a requirement to allow new investors.
4. There is no guarantee that quarter-end NAVs published by these tender offer funds will reflect underlying valuations from the current quarter.



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